

Michigan League for Public Policy

2019 BUDGET PRIORITIES

Restore the State Earned Income Tax Credit

— LEAGUE RECOMMENDATION —

Restore the state's Earned Income Tax Credit (EITC), incrementally increasing it to its former level of 20% of the federal credit, to help families keep working, take steps toward self-sufficiency and put money back into the local economy.

BACKGROUND: Michigan, along with 25 other states and the District of Columbia, supplements the federal EITC to provide a state credit. However, Michigan's credit, at 6% of the federal credit, is one of the weakest state credits nationwide. As recently as 2011, taxpayers were allowed to claim a credit equal to 20% of their federal EITCs.

In 2015, nearly 757,000 Michigan families, raising over 1 million children, received a state EITC at an average of \$145, with families raising at least two children seeing a bigger benefit. Had the credit been what it was in 2011, these same families would have seen an average of \$337 more.

WHY IT MATTERS:

- **The EITC is a proven-effective anti-poverty tool.** The EITC is targeted to people with low to moderate incomes. In Michigan, the average income of an EITC recipient in 2015 was \$18,404. Of the families receiving the EITC, more than 419,500 fell at or below the poverty level based on income in 2015. Over 90,000 Michigan taxpayers were pulled above poverty by the combined effects of the federal and state EITC; the state EITC alone pulled more than 6,550 of those above poverty. However, at its height, a state EITC equal to 20% of the federal credit pulled over 22,000 Michigan taxpayers out of poverty.
- **The EITC rewards work and helps keep people working, spurring local economies.** The EITC is only available to people who have earned income—that is people who work or who are self-employed. Recipients also tend to use the credit for things that help keep them working—like transportation costs or child care—or daily necessities. Because the credit is refundable, this is money that is spent in the local economies that without the EITC likely would not be spent. In 2015, up to \$109.5 million was put back into local economies by virtue of the EITC.
- **The EITC has long-lasting positive impacts on the lives of children, and helps them into adulthood.** In addition to helping pull families, including children, above poverty, the EITC also helps improve child health from the start—by improving maternal health and prenatal care and reducing low-birthweight and premature births. The EITC also helps children do better and go farther in school and ultimately increases the chances of being able to attend and/or afford college. Children in families receiving the EITC also go on to make more as adults.

